

SPX Ratio Spread Back Testing Results – Part 2

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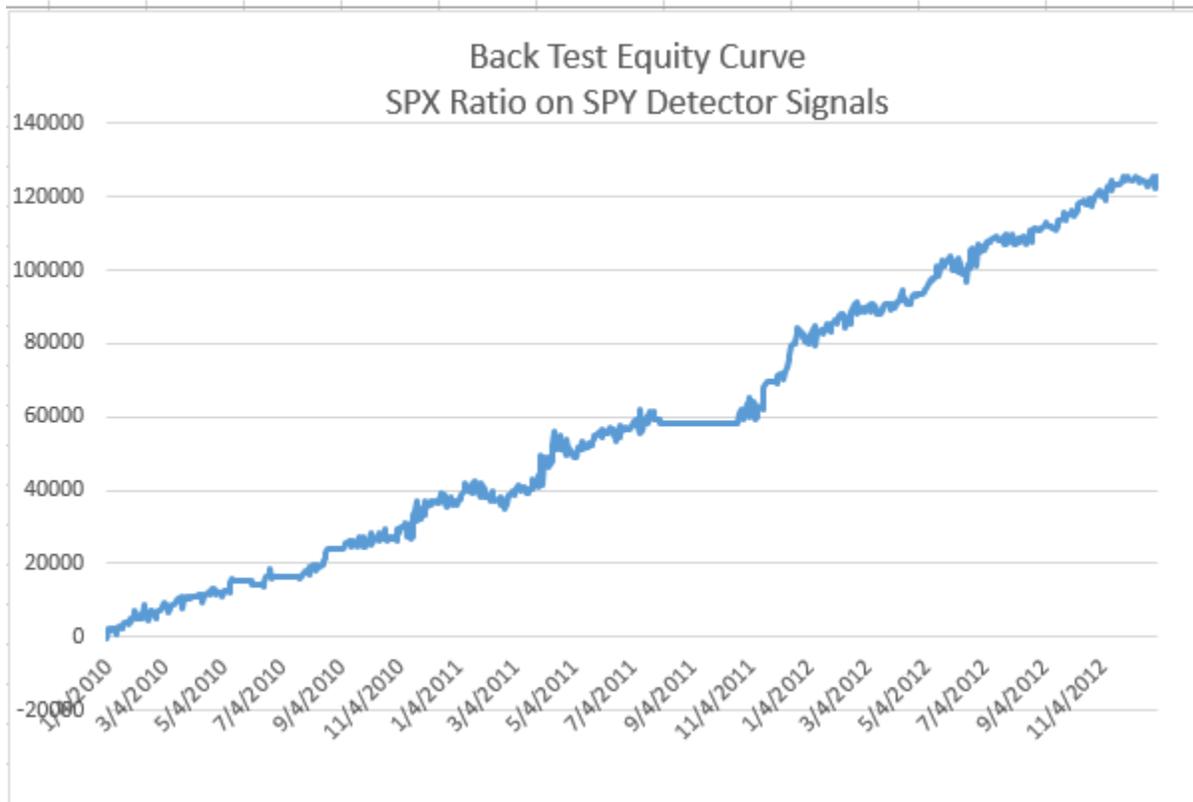
Please note: Hypothetical computer simulated performance results are believed to be accurately presented. However, they are not guaranteed as to accuracy or completeness and are subject to change without any notice. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Since, also, the trades have not actually been executed; the results may have been under or over compensated for the impact, if any, of certain market factors such as liquidity, slippage and commissions. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any portfolio will, or is likely to achieve profits or losses similar to those shown. All investments and trades carry risks.”

[Options Risk Disclaimer](#)

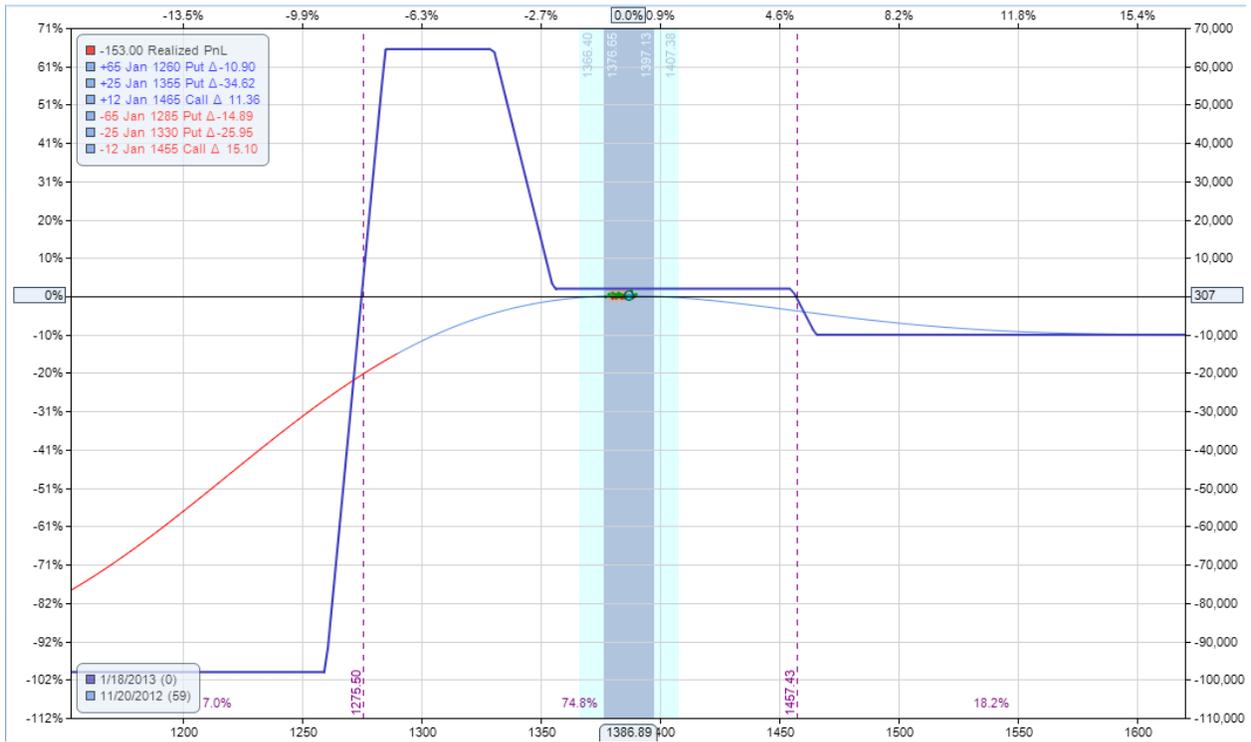
I added another year to the back testing which now includes 2010, 2011, and 2012. The first two years are notoriously difficult for market neutral options strategies. By adding 2012 we can see how the performance remains good through many different market conditions.

These three years are showing annualized returns of 42% with a max trade draw down of 3.3%. Commissions were set at \$0.75 per contract (middle of the road between retail and professional). With the low trading frequency, retail accounts at \$1.00 per contract would not see much difference in total performance.

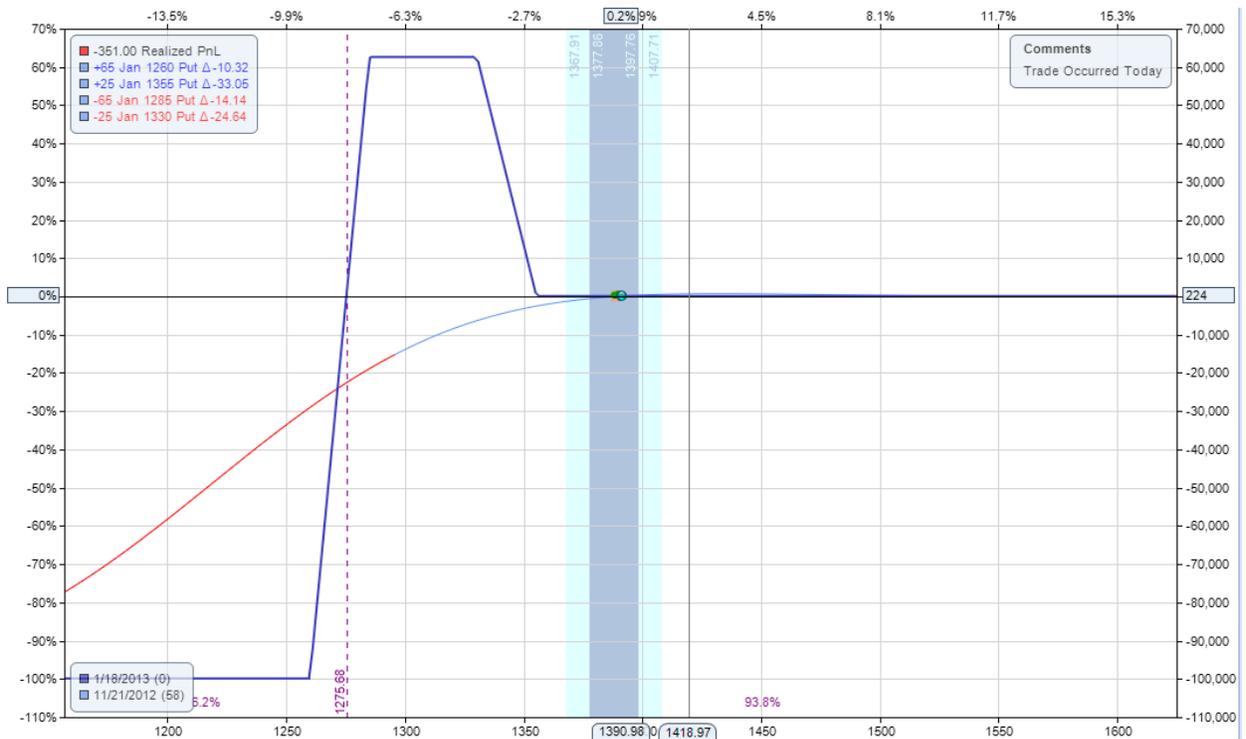
Here’s the options back test equity curve using a \$100K max risk per trade:



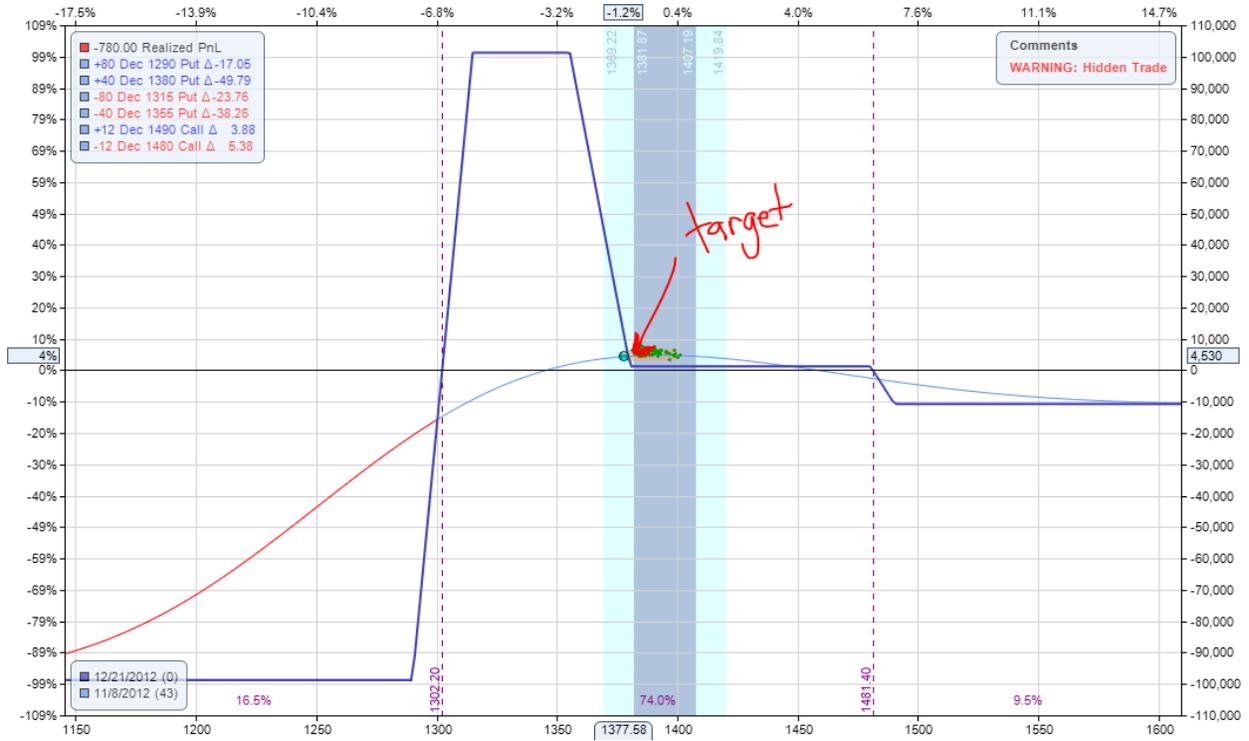
The trade profile looks like this when the SPY Detector signal is 20% to 40% long



If the signal strengthens to 60% or higher, then the short call spreads are removed to create a profile like this:



When the signal is flat, the call side is included again and the ultimate target is the long of the debit spread. At this point in the profile, the risk is too great to the downside and the upside is giving back profit, so the position is closed until the SPY Detector signal shows us the “all clear” again.



[Attachments: 3 Year day-by-day tracking spreadsheet, ONE options back testing export with all trades]